LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7254
BILL NUMBER: HB 1581

NOTE PREPARED: Jan 7, 2015
BILL AMENDED:

SUBJECT: Unfunded Pension Liabilities.

FIRST AUTHOR: Rep. Niezgodski
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that if an entity, including a political subdivision, participates in the Public Employees' Retirement Fund (PERF) at the discretion of the entity and then takes an action that would restrict employee membership in PERF, the entity becomes liable for the future benefits payable to the entity's current and former employees.

The bill provides that if an entity (other than a political subdivision) that has discretion to participate in PERF seeks to withdraw from PERF, the entity becomes liable for the future benefits payable to the entity's current and former employees.

The bill also eliminates an obsolete provision that is no longer applicable to governmental retirement plans under the Internal Revenue Code.

Effective Date: Upon passage.

Explanation of State Expenditures: The bill affects the state as an employer. Currently, the state will realize an increase in its employer contribution rate over time due to the decisions of some other discretionary entities. The bill will eliminate this increase in the state's contribution rate.

INPRS: The bill's requirements that INPRS calculate additional amounts owed by affected discretionary entities are within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

State Educational Institutions: The bill affects state educational institutions in as much as they are discretionary entities and may choose to withdraw from PERF (either in whole or in part) or may restrict enrollment in PERF to new employees. In those cases where they do withdraw employees or restrict enrollment into PERF for new employees, they are liable for the future benefits payable for their current and former employees who are enrolled in PERF.

Directly impacted by the bill are four state educational institutions that are known to have “frozen” new employees from participation in PERF since December 31, 2010. These institutions include Ivy Tech, Indiana University, Purdue University, and the University of Southern Indiana. The net present value of the total liabilities owed by these institutions is $73 M.

If any state educational institutions opt to withdraw all of their employees from PERF, all of their active employees are automatically vested in PERF, regardless of years of service.

Additional Information: Several local entities as well as state educational institutions have restricted membership in PERF to new employees since 2011. These decisions were allowed according to existing PERF statute, and these entities were able to do this, in some cases, without providing notice to INPRS.

This restriction or “freezing” is different from a withdrawal, where notice to INPRS is required. It is possible, due to the lack of a notice requirement for freezing, that there are additional entities that have done this and are planning to act in a similar manner to these entities that have already placed “freezes” on PERF enrollment.

PERF is a cost-sharing pension plan where all employers pay the same contribution rate (currently 11.2% for all but a handful of local employers). Consequently, when these entities froze enrollment into PERF, they shifted some of the liabilities for their current and former employees in PERF to the other PERF employers. This is due to the fact that the affected discretionary entities are paying a contribution rate based on a gradually shrinking affected payroll (since the contribution rate is only paid on the portion of the employer’s payroll that is covered in PERF).

According to INPRS, the decisions by these entities will cost other PERF employers approximately $97 M in additional liabilities in today’s dollars.

It is expected that these additional liabilities will be slowly absorbed by the remaining employers through 2043 and will, over time, increase their contribution rate by 0.23%. By 2043, the $97 M liability shift will ultimately cost the remaining employers $256 M.

Explanation of State Revenues:

Explanation of Local Expenditures: Local discretionary entities that choose to restrict future enrollment in PERF will be required to pay an amount determined by INPRS in order to cover the entire amount of liabilities of their current and former employees that remain in PERF. Local entities that are known to have already restricted new employees from enrolling in PERF have known liabilities with a net present value of approximately $24 M.

Explanation of Local Revenues:

State Agencies Affected: INPRS, State Educational Institutions, All.

Local Agencies Affected: Political subdivisions.

Information Sources: 2014 INPRS Update to the Indiana State Budget Committee, November 20, 2014.

Fiscal Analyst: Stephanie Wells, 232-9866.